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A force to lift the curse of natural resources

By Deepak Lal

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The World Bank recently produced a list of potential failed states. Most of these are in the Islamic world and Africa. Nearly all have abundant natural resources. This apparent blessing has proved to be a precious bane*.

The main reason for this is the strong temptation for anyone controlling the state to appropriate the rents from natural resources for their own purposes. The various civil wars in Africa, including the ongoing ones in Liberia and the Congo, are fuelled by the desire to control these rents. It was the rents from their oil that permitted Middle Eastern autocrats such as Libya's Colonel Muammer Gadaffi, Iraq's Saddam Hussein, Iran's mullahs and the Saudi monarchs to pursue aims as diverse as funding global terrorism, the development of weapons of mass destruction and the export of Wahabism. What is to be done?

The answer must be to find a way to de-politicise these natural resource rents. One way of doing this, adopted for example by Alaska, would be to distribute these revenues to citizens by writing cheques through the tax system. But such a policy is not available in countries that have no functioning state.

An international extension of the United Nations oil-for-food programme in Iraq could provide the solution. However, given America's understandable lack of confidence in the UN after the Iraq crisis, another agency would have to be found for this long-term development task. Nor could the US do it through a purely domestic institution because of the nationalist passions that this would unleash.

But there are two multilateral institutions - the World Bank and the International Monetary Fund - that might be suited for this undertaking. I have argued elsewhere that both, having fulfilled their original purpose, should logically be shut down**. But, like old soldiers, international institutions never die. The two should now be amalgamated and given a new role. They can call on the expertise of an international technocratic bureaucracy and, unlike the UN, are not subject to populist international pressure (though there may be doubts on this score about the present-day World Bank). And given their weighted voting systems, they are likely to be acceptable to the US. A conjoining of their staff to form an International Natural Resources Fund (INRF) would thus be desirable.

The purpose of the INRF would be to obtain the rents from the natural resources of failed or failing states. These revenues would be put in escrow accounts for use only in the countries in which they were generated. The funds would be released only on the authority of the INRF for purposes determined by the fund's managers in consultation with the local government - mainly for social and economic infrastructure projects. These projects would be subject to the international bidding, controls and monitoring procedures of the World Bank. This would de-politicise the deployment of the natural resource rents and

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remove a major reason for the failure of states.

How could predators be prevented from attacking the mines and wells generating the rents? Here the military prowess of an imperial power or a coalition of such powers is crucial. Such a power could follow the example of China during the interwar period by leasing foreign companies territory that they could protect with their own police forces, in return for royalties to the INRF. But even this privatised solution would require the imperial power to maintain "gunboats and Gurkhas" at the ready, in case some local predator decided to mount a challenge to the private controllers of the mines.

In time, as properly deployed resource rents led to general prosperity and political institutions developed, the INRF could hand back the escrow account to the local government. This is likely to be a long haul and it is an open question whether the US has the will to sustain such "nation building". But without it, the natural resources that should bring prosperity to the populations of failed states will continue to be stolen by predatory elites and used to oppress them. Worse, they may be used to fund the global terrorism that remains a serious source of international disorder.

* *The Political Economy of Poverty, Equity and Growth*, by Deepak Lal and Hla Myint, Clarendon Press, 1996

** *The Poverty of Development Economics*, IEA, 2002

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